

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

BOND AMENDMENT STAFF REPORT

ISSUE: In connection with a proposed substitution of a confirming letter of credit, Scientific Specialties Incorporated (Scientific Specialties) requests an amendment to certain documents related to the California Economic Development Financing Authority's tax exempt Variable Rate Demand Industrial Development Revenue Bonds, Series 1998 (Scientific Specialties Incorporated Project) (1998 Bonds). The amendments will extend the maturity date of the 1998 Bonds by five years..

BACKGROUND INFORMATION:

On February 25, 1998, the California Economic Development Financing Authority (CEDFA, as the I-Bank's predecessor) approved Resolution C98-12 authorizing the issuance of industrial development tax-exempt bonds in an amount not to exceed \$2,400,000 on behalf of Thurman Street Company, LLC (Borrower). Thurman Street leases a manufacturing facility located in the City of Lodi to Scientific Specialties, a corporation that manufactures rubber and plastic products used by research institutes, hospitals and universities.

The proceeds of the 1998 Bonds were used for the acquisition of construction of a 52,000 square foot manufacturing facility on 5.2 acres and acquisition of related manufacturing equipment such as injection molding and automated packaging equipment. The Staff Report dated February 1998, and a copy of Resolution C98-12 are attached for a more complete description of the project and financing structure (see **Attachment A**).

The 1998 Bonds were originally secured by a direct pay letter of credit (LOC) from Bank of Stockton, with a confirming letter of credit from Bank of America. In 2007, the I-Bank approved the substitution of Bank of America's confirming letter of credit with a confirming letter of credit issued by The Bank of New York. The process for the substitution of the confirming letter of credit was completed pursuant to specific provisions in the financing documents and did not require I-Bank Board action.

NEED FOR AMENDMENT: The current confirming letter of credit issued by Bank of New York is set to expire on April 1, 2010, and The Bank of New York has notified the Borrower that it has elected not to extend the terms of the confirming letter of credit. Because The Bank of New York will not be extending the term of its confirming letter of credit, the Borrower is proposing to substitute a confirming letter of credit to be provided by the Federal Home Loan Bank of San Francisco. Standard & Poor's is expected to assign the 1998 Bonds a credit rating of "AAA/A-1+" based on the Bank of Stockton LOC and the confirming letter of credit from the Federal Home Loan Bank of San Francisco.

As a condition to issuing its confirming letter of credit, Federal Home Loan Bank of San Francisco is requiring an extension of the maturity date of the 1998 Bonds. It is the extension of the maturity of the 1998 Bonds that triggers the need for amendments to

the financing documents. Specifically, amendments are needed to the Indenture and Loan Agreement, and a second supplement to the Official Statement will be issued by the Borrower. New TEFRA hearings were conducted on February 18 and 22, 2010. The extension of the maturity of the 1998 Bonds also requires bondholder consent and will result in the reissuance of the tax-exempt 1998 Bonds for tax purposes. Because the proposed amendments require bondholder consent, they do not fit within the scope of the Executive Director's existing delegated authority established by Resolution 08-35.

RECOMMENDATION: Staff recommends approval of Resolution 10-06 authorizing amendments to the 1998 Bonds financing documents to extend the maturity date for the California Economic Development Finance Authority tax-exempt Variable Rate Demand Industrial Development Revenue Bonds, Series 1998 (Scientific Specialties Incorporated Project) in connection with the borrowers proposed substitution of the confirming letter of credit.

ATTACHMENT A
February 25, 1998 Staff Report and Resolution C98-12

AGENDA ITEM NO. III. C.
February 25, 1998

STAFF SUMMARY

Applicant:	Thurman Street Company, LLC
Action Requested:	Final Resolution
Type of Financing:	Small Issue Industrial Development Bond
Amount:	Not to exceed \$2,400,000
Bond Counsel:	Kutak Rock/Sam Balisy
Underwriter:	Dain Rauscher, Inc./Paul McDonnell
Financial Advisor:	Growth Capital Associates/Daniel J. Bronfman
Trustee:	First Trust of California, N.A./Jennifer Holder
Letter of Credit Bank:	Bank of Stockton

APPLICANT DESCRIPTION:

Thurman Street Company, LLC (the "Applicant") is a limited liability company, owned by The Kenneth R. Hovatter and Roberta M. Hovatter 1997 Revocable Trust, currently being organized for the purpose of the proposed Project. Scientific Specialties Incorporated (the "User") is also 100% owned by Dr. & Mrs. Hovatter, having been incorporated in California in 1990. The User is a manufacturer of rubber and miscellaneous plastic products. Specifically, Scientific Specialties produces test tubes, storage containers and liquid transfer pipettes used in molecular biological research and testing. Products are sold through distributors to various research institutes, hospitals and universities. Major customers include Intermountain Scientific Corporation (Utah), USA Scientific Plastics (Florida), Fisher Scientific (Pennsylvania), Biozym Diagnostic (Germany) and Bertec Enterprise Co. Ltd. (Taiwan).

PROJECT DESCRIPTION:

The Thurman Street Company is proposing to construct a new building of approximately 52,000 square feet on approximately 5.2 acres of land which is owned by the Applicant. Bond proceeds will also be used to acquire and install new production equipment, including injection molding machines, automated packaging equipment and other support equipment.

Funds associated with the construction of the building will be disbursed over a 12 to 18 month period, beginning April 1998. Various items of equipment will be acquired through May of 1999.

PUBLIC BENEFITS:

Scientific Specialties Incorporated currently employs 50 individuals, with an annual payroll of \$5 million. Approval of the proposed financing will allow the Company to consolidate their current operations for a more efficient operation. The new facility will also provide more clean room capability which will allow the Applicant to increase production to meet growing demand. The Company anticipates creating 50 new jobs within two years of project completion, increasing their annual payroll to over \$3 million. The new job creation represents one job for every \$48,000 in bond financing. Management has indicated that the new positions are essentially entry level in nature, and will be made available to low-and moderate-income individuals.

BOND DESCRIPTION:

Private activity bond allocation has been granted on January 28, 1998 by CDLAC. If a final resolution is approved by CEDFA, CEDFA will issue \$2,400,000 in tax-exempt, variable rate, demand bonds with a weekly interest rate setting mechanism. In no event shall the bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the bonds. The bonds shall constitute a special obligation of CEDFA payable solely from revenues or other sources provided for in a loan agreement between CEDFA and the Company. Additionally, it is anticipated that the bonds will be secured by an irrevocable, direct pay letter of credit issued by the Bank of Stockton and confirmed by an institution with a minimum rating of A/A-1 by Standard and Poor's.

ELIGIBILITY REVIEW:

The proposed financing meets the following public interest criteria as required by section 157209a) of the Government Code: 1) The financing is for a project in the State of California; 2) the borrower is capable of meeting the obligations incurred under relevant agreements *as guaranteed by a letter of credit from the Bank of Stockton*; 3) the assistance to be rendered is in an area of high unemployment, as defined in Government Code Section 15711, and has the capability of providing jobs to low-and moderate-income people; 4) the financing will provide employment, and retention of employment in a reasonable relationship to the amount of financing; 5) the payments to be made by the borrower to CEDFA under the loan agreement are adequate to pay the current expenses of CEDFA in connection with the financing and to make all the payments on the bonds.

AGENDA ITEM NO. III. C.
February 25, 1998
Page 3

RECOMMENDATION:

Staff recommends approval of Final Resolution C98-12, for an amount not to exceed \$2,400,000, for Thurman Street Company, LLC.

RESOLUTION C98-12

RESOLUTION OF THE CALIFORNIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY AUTHORIZING THE SALE AND ISSUANCE OF NOT TO EXCEED \$2,400,000 AGGREGATE PRINCIPAL AMOUNT OF CALIFORNIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY VARIABLE RATE DEMAND INDUSTRIAL DEVELOPMENT REVENUE BONDS, SERIES 1998 (SCIENTIFIC SPECIALTIES INCORPORATED PROJECT) FOR THE ACQUISITION, CONSTRUCTION AND INSTALLATION OF CERTAIN PROPERTY AND FACILITIES, PROVIDING THE TERMS AND CONDITIONS FOR THE SALE AND ISSUANCE OF SAID BONDS AND OTHER MATTERS RELATING THERETO AND AUTHORIZING THE EXECUTION OF CERTAIN DOCUMENTS HEREIN SPECIFIED

WHEREAS, the California Economic Development Financing Authority (the "Authority") was established for the purpose of promoting and encouraging commerce and industry, and generally to foster economic development in the State of California (the "State") and is authorized to issue tax-exempt revenue bonds to provide financing for private activity economic development projects; and

WHEREAS, the Board of Directors of the Authority adopted Resolution No. C97-42 on November 20, 1997 expressing its intention to issue industrial development bonds pursuant to the provisions of Section 15710 et seq. of the California Government Code (the "Act") for the benefit of the Thurman Street Company, LLC, or a related entity (the "Borrower") for the purpose of financing the (1) construction of an approximately 52,000 square foot manufacturing facility on the southside of Thurman Street, Lodi, California, (2) acquisition and installation of certain equipment and (3) payment of capitalized interest and certain costs of issuance in connection with the hereinafter described bonds to be issued by the Authority (the "Project"); and

WHEREAS, the Borrower will use the Project to manufacture test tubes, storage containers and liquid transfer pipettes used in molecular biological research or for the production of other tangible personal property; and

WHEREAS, for purposes of financing the cost of the Project, the Authority now desires (i) to authorize the issuance of its Variable Rate Demand Industrial Development Revenue Bonds, Series 1998 (Scientific Specialties Incorporated Project) (the "Bonds"), in an aggregate principal amount not to exceed \$2,400,000, (ii) to provide for the sale of the Bonds, (iii) to provide for the payment of the principal of, premium, if any, and interest on the Bonds with revenues derived from the loan of proceeds of the sale of the Bonds (except for any amount representing accrued interest on the Bonds) to the Borrower to finance the costs of the Project pursuant to the terms and provisions of a loan agreement and (iv) to take and authorize certain other actions in connection with the foregoing; and

WHEREAS, the Authority may not issue the Bonds to finance the Project until the Board of Directors of the Authority makes certain determinations relating to the Project as required by the Act;

WHEREAS, there is now on file with the Secretary of the Authority the following:

- 1) A proposed form of the Loan Agreement, tentatively dated as of April 1, 1998 (the "Loan Agreement"), to be entered into by and between the Authority and the Borrower;

- 2) A proposed form of the Indenture of Trust, tentatively dated as of April 1, 1998 (the "Indenture"), to be entered into between the Authority and First Trust of California, National Association, as trustee (the "Trustee"), providing for the authorization and issuance of the Bonds to be dated the date of delivery thereof;
- 3) A proposed form of the Purchase Contract (the "Purchase Contract"), to be entered into by and among the Authority, the Treasurer of the State of California and Dain Rauscher Incorporated (the "Underwriter"), and approved by the Borrower;
- 4) A proposed form of the Tax Regulatory Agreement, tentatively dated as of April 1, 1998 (the "Tax Regulatory Agreement"), to be entered into by and among the Authority, the Borrower and the Trustee; and
- 5) A proposed form of the Official Statement (the "Official Statement") to be used by the Underwriter in connection with the sale of the Bonds.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Economic Development Financing Authority, as follows:

Section 1. The form of the Loan Agreement on file with the Secretary of the Authority is hereby approved and the Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver the Loan Agreement, and the Secretary of the Authority is authorized to attest thereto, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Authority, such approval to be conclusively evidenced by the delivery thereof. The Authority further authorizes and approves the loan of the proceeds of the Bonds (except any amount representing accrued interest on the Bonds) to the Borrower in order to finance the cost of the Project pursuant to the terms and provisions of the Loan Agreement.

Section 2. The form of the Indenture on file with the Secretary of the Authority is hereby approved and the Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Trustee the Indenture, and the Secretary of the Authority is authorized to attest thereto, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Authority, such approval to be conclusively evidenced by the delivery thereof.

Section 3. The form of the Purchase Contract on file with the Secretary of the Authority is hereby approved and the Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver the Purchase Contract, and the Secretary of the Authority is authorized to attest thereto, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Authority, such approval to be conclusively evidenced by the delivery thereof.

Section 4. The form of the Tax Regulatory Agreement on file with the Secretary of the Authority is hereby approved and the Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized and empowered to execute by manual or facsimile

signature and deliver the Tax Regulatory Agreement with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Authority, such approval to be conclusively evidenced by the delivery thereof.

Section 5. The form of the Official Statement on file with the Secretary of the Authority is hereby approved and the Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized and empowered to execute the Official Statement with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Authority, such approval to be conclusively evidenced by the delivery thereof. The Underwriter is hereby authorized to distribute copies of the Official Statement in connection with the sale of the Bonds.

Section 6. The Authority approves the issuance on a tax-exempt basis of not to exceed \$2,400,000 aggregate principal amount of the Bonds for the Project in accordance with the terms of and to be secured by the Indenture. Payment of the principal of, premium, if any, and the interest on, the Bonds shall be made solely from the revenues to be received by the Authority pursuant to the Loan Agreement and Indenture, and said Bonds shall not be deemed to constitute a debt or liability of the Authority or the State. The Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized and directed to execute, in the name and on behalf of the Authority, by manual or facsimile signature, the Bonds, and the Secretary of the Authority is hereby authorized and directed to attest, by manual or facsimile signature, thereto in an aggregate principal amount not to exceed \$2,400,000 in accordance with the Indenture and in the form set forth in the Indenture. The Bonds shall bear interest at the rates to be determined in accordance with the Indenture. In no event shall the rate of interest on the Bonds exceed twelve percent (12%) per annum or the maximum rate permitted by law.

Section 7. The Bonds, when so executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate and register the Bonds so delivered by executing the appropriate Certificate of Authentication and Registration appearing thereon, and to deliver the Bonds, when duly executed, authenticated and registered, to the Underwriter in accordance with written instructions executed on behalf of the Authority by the Chair of the Authority or the Chair's designee which instructions said officer is hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute and to deliver to the Trustee. Such instructions shall provide for the delivery of the Bonds to the Underwriter upon payment of the purchase price therefor.

Section 8. Based upon representations made by the Borrower, the Board of Directors of the Authority hereby finds and determines:

- a. that the Project is located in the State;
- b. that the Borrower is capable of meeting its obligations with respect to the Bonds to be issued for the Project;
- c. that the assistance to be rendered is in an area of high unemployment, as defined in Government Code Section 15711, and has the capability of providing jobs to low- and moderate-income people;
- d. that the Project will provide employment having a reasonable relationship to the amount of the financing; and

e. that the payments to the Authority are adequate to pay all expenses of the Authority in connection with the issuance and payment of the Bonds.

Section 9. The Secretary of the Authority is hereby authorized and directed to deliver a copy of this Resolution to the Board of Directors of the California Infrastructure and Economic Development Bank (the "Bank") along with a request that the Board of Directors of the Bank approve the issuance of the Bonds pursuant to California Government Code Section 63025.1(x).


Section 10. The Chair of the Authority or the Chair's designee, and each of them, acting alone, is hereby authorized to execute all documents, certificates and instruments necessary or appropriate to this transaction and the issuance of the Bonds. All actions required to be undertaken by the Secretary of the Authority that are necessary or appropriate to this transaction and the issuance of the Bonds may be undertaken by the Secretary's designee.

Section 11. All actions heretofore taken by the officers and agents of the Authority with respect to the approval, issuance and sale of the Bonds are hereby approved, confirmed and ratified, and the officers of the Authority and their authorized designees, deputies and agents are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all certificates and documents which they or bond counsel may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution.

Section 12. This Resolution shall take effect from and after its adoption.

PASSED, APPROVED, AND ADOPTED at a meeting of the California Economic Development Financing Authority on February 25, 1998, by the following vote:

AYES: ~~HOLBEN~~, ~~DEZENBERG~~
NOES: ~~NONE~~
ABSENT: ~~NONE~~
ABSTAIN: ~~SMITH~~


Christopher S. Holben, Chair

ATTEST:


Blake Fowler, Secretary